Q2 2022 Earnings and Business Update

May 30, 2022

Brian Pedlar, CEO
Jason Gorel, Interim CFO

TSX-V: COV
OTCQX: CVALF

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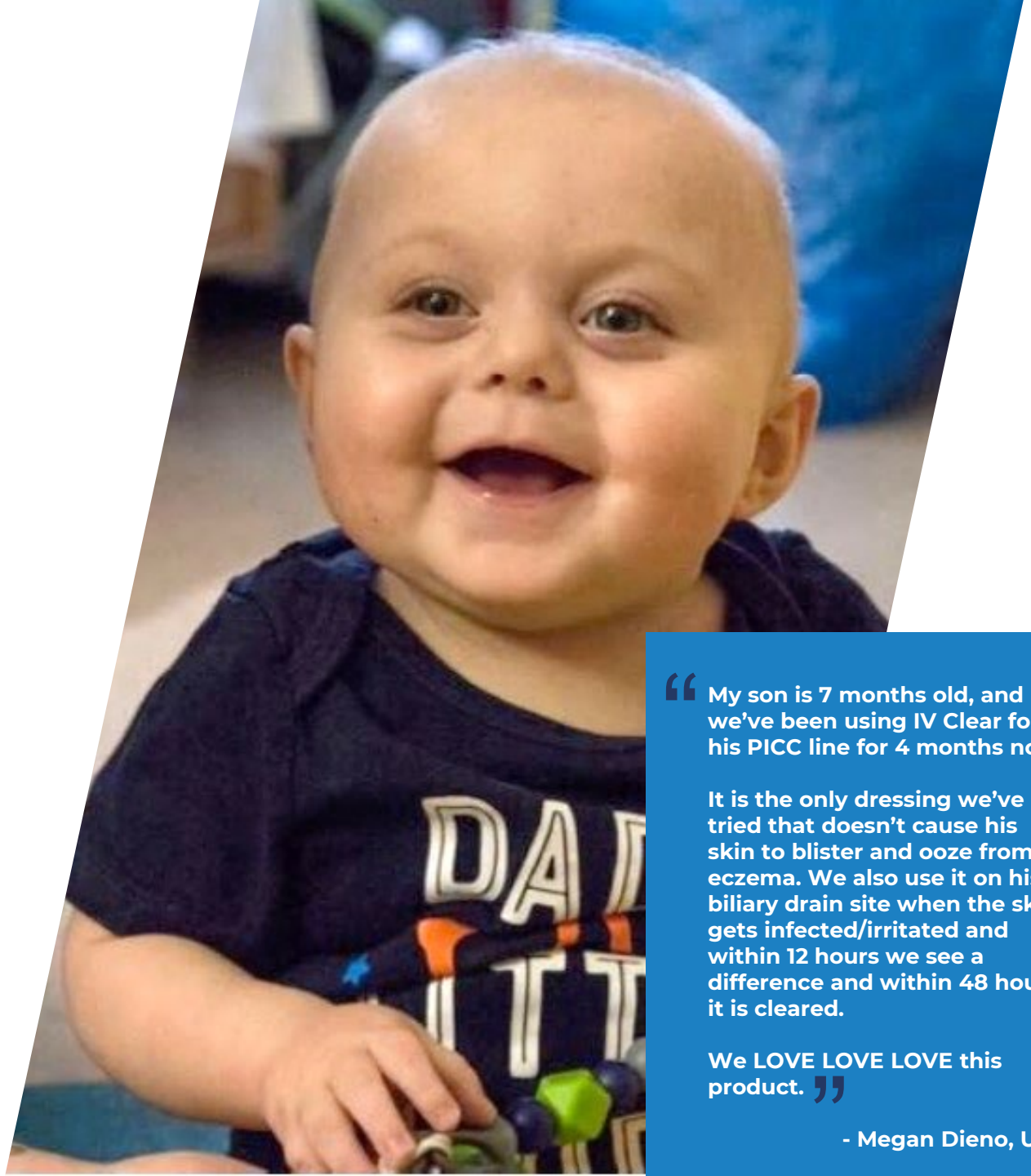
Our Infection Prevention Technologies Save Lives

Covalon is a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing.

Through a strong portfolio of patented technologies and solutions for advanced wound care, infection prevention and medical device coatings, we offer innovative, gentler and more compassionate options for patients to heal with less infections, less pain and better outcomes.

Our solutions are designed for patients and made for care providers.



> "My son is 7 months old, and we've been using IV Clear for his PICC line for 4 months now.
>
> It is the only dressing we've tried that doesn't cause his skin to blister and ooze from eczema. We also use it on his biliary drain site when the skin gets infected/irritated and within 12 hours we see a difference and within 48 hours it is cleared.
>
> We LOVE LOVE LOVE this product."
>
> - Megan Dieno, USA

Forward-Looking Statements and Non-GAAP Financial Information

Certain statements included in this Memorandum may be considered forward-looking statements. These forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “estimate”, “expect”, “intend” and statements that an event or result “may”, “will”, “should”, “could”, or “might” occur or be achieved and other similar expressions. More specifically, this Memorandum contains forward-looking statements which include, but are not limited to statements regarding: the Company’s corporate strategy and strategic objectives; the availability of external financing to fund the Company’s ongoing liabilities and commitments; the direct and indirect impact of the COVID-19 pandemic on the Company’s business and operations, including supply chain, manufacturing, research and development costs, contracted service providers and employees, and general business and economic events. These forward-looking statements involve risk and uncertainties, including the impact on the Company given its current liquidity situation, the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results, and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Such forward-looking statements should not be taken as guarantees of future performance of Covalon.

All forward-looking statements are based on Covalon’s current beliefs as well as assumptions made by and information currently available to Covalon and relate to, among other things, anticipated financial performance, business prospects, partnership opportunities, strategies, regulatory developments, market acceptance and future commitments. The recipient is cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Memorandum.

Due to risks and uncertainties, including the risks and uncertainties identified by Covalon in its public securities filings, actual events may differ materially from current expectations. Covalon disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Certain financial measures in this Memorandum – namely earnings before interest, depreciation and amortization (“EBITDA”), adjusted EBITDA, pro-forma EBITDA, free cash flow and enterprise value – are non-IFRS financial measures. While Covalon and certain of its competitors measure and evaluate the performance of their respective consolidated operations and business segments with reference to these and similar measures, non-IFRS measures do not have any standardized or prescribed meaning under IFRS or otherwise and therefore are unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with IFRS. All non-IFRS measures are included because management monitors and uses the information on a regular basis to analyze the performance of the business and therefore may be considered useful information.

For further information about the risks and uncertainties relating to forward-looking statements included in this Memorandum, the recipient should consult the “Risks and Uncertainties” section of Covalon’s annual MD&A dated January 27, 2021, as well as those contained in Covalon’s interim MD&As and other public record filings on SEDAR.

All figures are in Canadian dollars, unless otherwise noted, and Covalon’s fiscal year end is September 30th.

Covalon Has a Strong Growth Platform

Financially Strong Core Business

- ~$22 million in cash; no debt
- Above-market revenue growth with modest profit in 2021 from continuing operations
- Strong management team focused on growth

Innovative Product Solutions backed by Strong IP

- Solid clinical evidence backing patented product solutions
- Better, safer products that solve serious clinical issues
- Better antimicrobial technology and biological collagen platform technology

Massive Growth Potential

- $8.9 billion infections and chronic wounds market growing at alarming rates
- Leading influential KOL facilities becoming champions
- Solid distribution channels in United States, Middle East and LATAM

Financials

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Q1/Q2 Fiscal 2022 Financial Results – Key Highlights

- Revenue from continuing operations increased 19% to $8.2 million for the year to date, compared to $6.9 million in the prior year due to an increase in product sales
- Q2 revenues were $3.3 million, down due to shipment delays resulting from Shanghai closure, other shipment delays
- Covalon ended the period with $22 million of cash and cash in escrow or $0.85 per share on the balance sheet
- First quarter net loss from continuing operations of $2.5 million or $0.09 per share and Adjusted EBITDA loss of $2.2 million from continuing operations

Results are for the quarter and six months ended March 31, 2022 and 2021.

Continuing operations includes revenue from our core business of collagen, medical coatings, and antimicrobial silicone adhesive dressings, which continues to experience growth in the United States and internationally.

Discontinued operations are comprised of AquaGuard operations for the periods.

Revenues 6 Months

$8.2M ↑ +19%

Revenues Q2

$3.3M ↓ -1.0M

Cash

$22M ($0.85 per share)

Net loss Q2

$2.5M ↓ -$2.2M

Diluted EPS

($0.09) per share

Balance Sheet Significantly Improved

	Sept. 30, 2020	Sept. 30, 2021	Mar. 31, 2022
Cash	$3.5M	$25.5M	$22.0M
Current Assets	$14.8M	$37.4M	$31.5M
Total Assets	$34.7M	$40.6M	$34.6M
Debt	($17.7M)	$-----	$----
Current Liabilities	($22.6M)	($5.0M)	($3.5M)
Total Liabilities	($25.6M)	($7.2M)	($5.4M)

Key Takeaways

- Our balance sheet was transformed by the divestiture of the AquaGuard product line
- We repaid all outstanding bank debt and retired all credit facilities with HSBC Bank
- We ended our fiscal 2022 Q2 with $22M cash on the balance sheet
- Current assets consists of cash, accounts receivable, inventories and prepaid expenses
- Current liabilities consist of trade payables, accruals, current lease liabilities and deferred revenue

6 Months Income Statement Highlights

Revenues

$8.2M ↑ +19%

Primarily driven by an increase in Collagen product sales in the United States

Gross Profit

$4.0M ↑ +19%

49% +--- ppts

Primarily driven by inventory adjustments incurred in Q1

Adjusted Gross Margin(1)

$4.9M ↑ +22%

60% ↑ +20 ppts

Primarily due to impact of product mix and increased US product sales

Operating Expenses

$7.6M ↑ +68%

Primarily related to staff and other costs re-deployed from discontinued operations.

Net loss (continuing operations)

$3.6M ↓ -$2.2M

Includes $1.4M of inventory provision and non-recurring recruiting costs.

Net loss

$3.9M ↓ -$3.9M

Includes $0.4M net loss from discontinued operations

Adjusted EBITDA loss (2)

$2.5M ↓ -89%

Diluted EPS (continuing operations)

($0.14) per share

Diluted EPS

($0.15) per share

(1) Adjusted for inventory provisions and product re-work costs.
(2) Adjusted for interest, depreciation, amortization, share-based compensation, government subsidies, inventory provisions and accounts receivable write-offs

Q2 2022 Income Statement Highlights

Revenues

$3.3M ↓ -24%

Primarily driven by shipping delays due to Shanghai closure, other delays

Gross Profit

$1.7M ↓ -15%

53% ↑ +54 ppts

Primarily driven by shipping delays and product mix

Adjusted Gross Margin(1)

$1.9M ↑ -21%

56% ↑ +21 ppts

Primarily due to impact of product mix and shipping delays

Operating Expenses

$4.2M ↑ +86%

Primarily related to staff and re-deployed from discontinued operations.

Net loss (continuing operations)

$2.5M ↓ -$2.2M

Includes $0.6M of non-recurring recruiting costs.

Net loss

$2.5M ↓ -$2.8M

No discontinued operations activities in Q2.

Adjusted EBITDA (2) loss

$2.2M ↓ -214%

Diluted EPS (continuing operations)

($0.09) per share

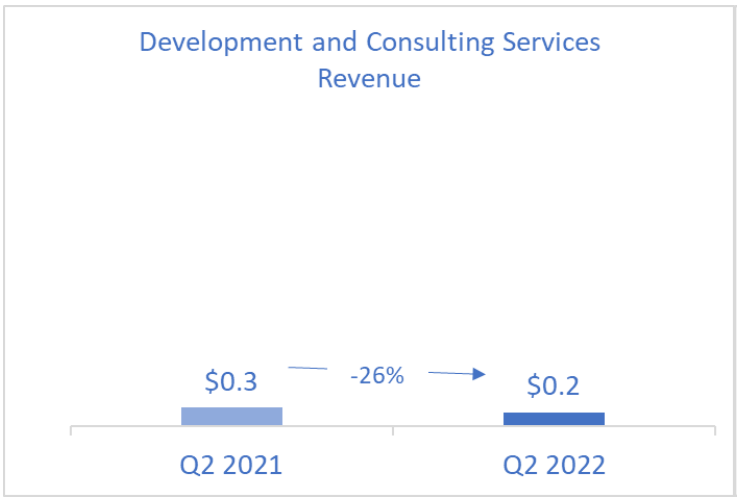
Diluted EPS

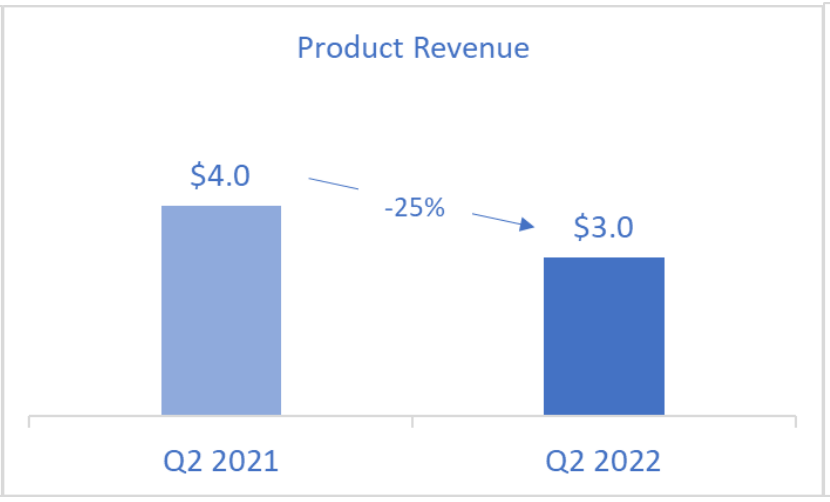
($0.09) per share

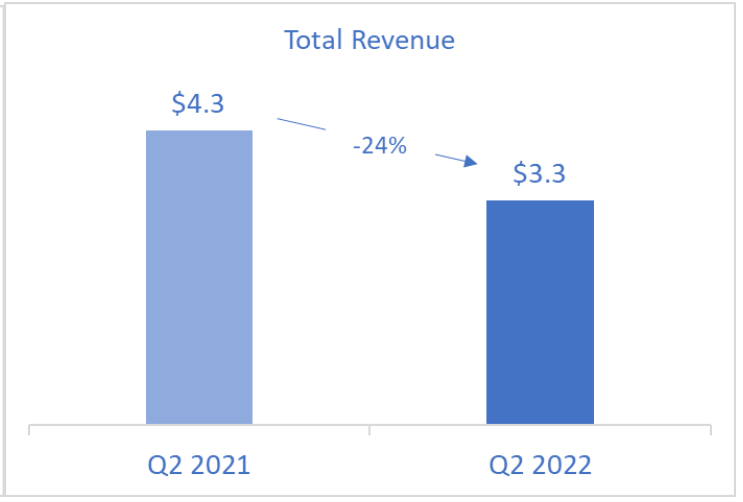
(1) Adjusted for inventory provisions and product re-work costs.
(2) Adjusted for interest, depreciation, amortization, share-based compensation, government subsidies, inventory provisions and accounts receivable write-offs

Q2 2022 Revenue

- Product revenue decreased 25% to $3.0 million, compared to $4.0 million for the same period in the prior year.
- Development and consulting services revenue for Q2 2022 decreased by 26% to $0.2 million, compared to $0.3 million for the same period of the prior year.
- Revenue from development and consulting services varies based on opportunities and the length of the sales cycle for given projects.
- The timing of this revenue will vary depending on length and timing of projects and discussions with customers.

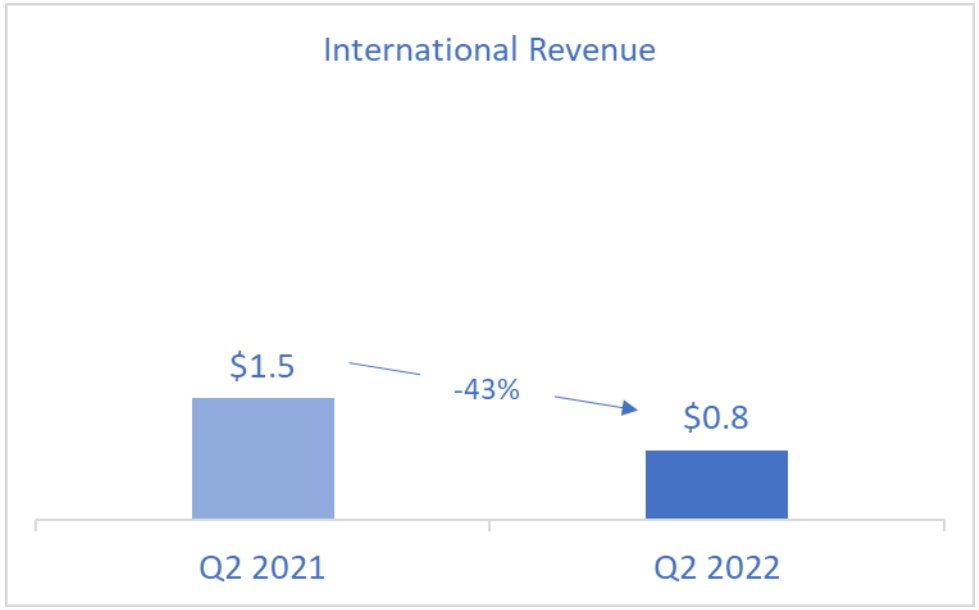


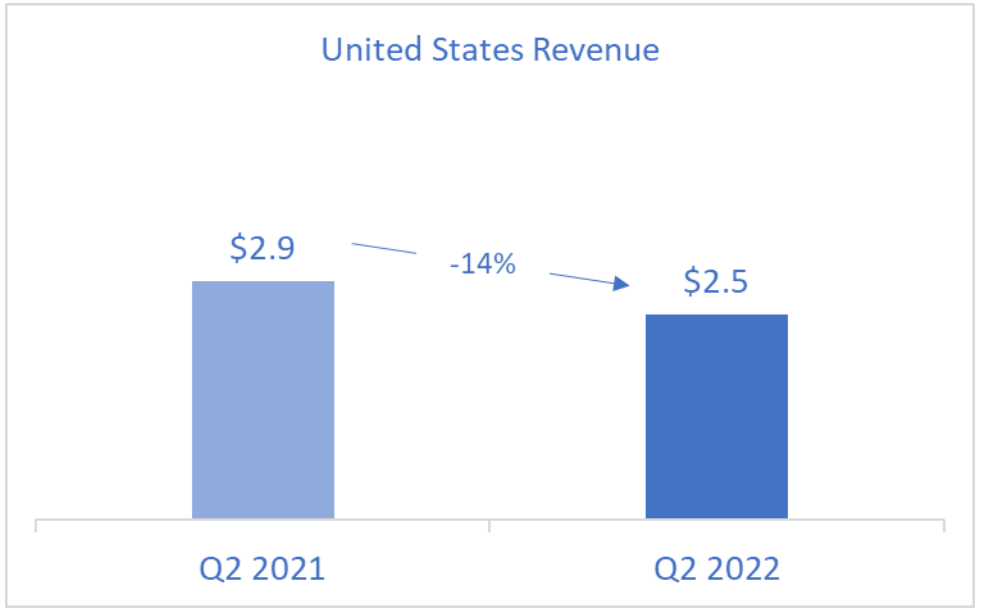




Q2 2022 Revenue by Geography

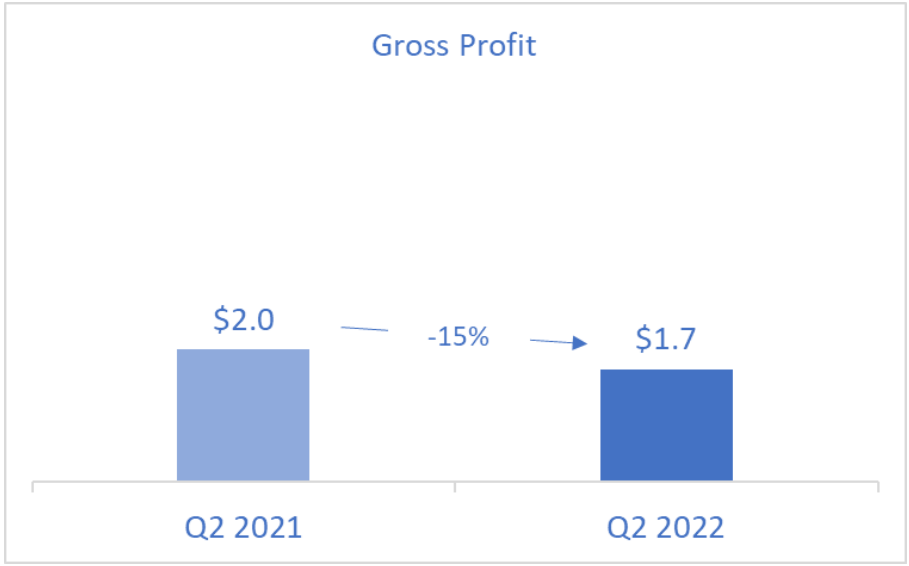
- Revenue in the United States declined slightly by 14% to $2.5 million primarily as a result of the timing of collagen dressing shipments.
- International revenue was down 43% to $0.8 million.
- Product revenue was down due primarily to major delays in product shipments from our warehouse in Shanghai. These delays were a result of Chinese government imposed COVID restrictions and negatively affected Covalon and worldwide supply chains.

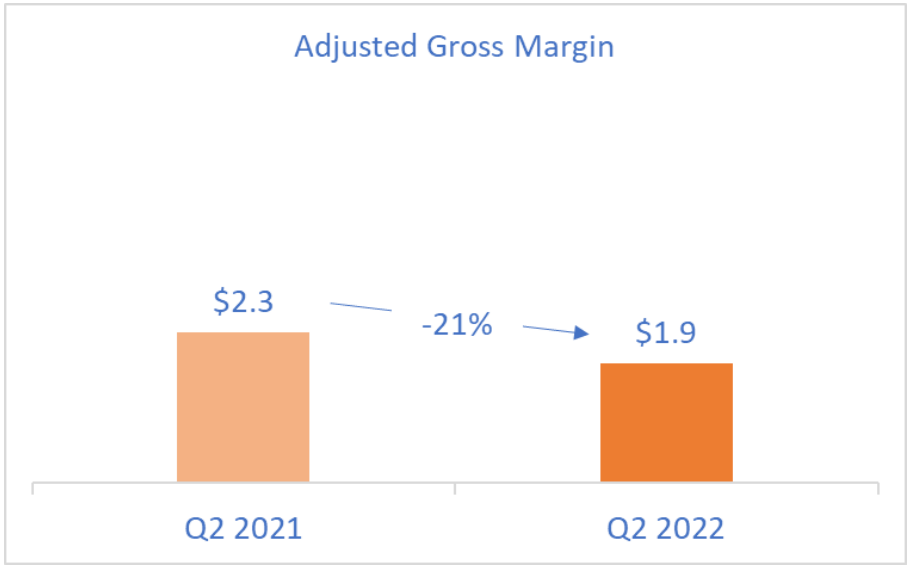




Q2 2022 Gross Profit and Adjusted Gross Margin[1]

- Gross margin for the period ended March 31, 2021, increased to 53% compared to 47% for the same period of the prior year.
- The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.
- Adjusted gross margin[1], which excludes inventory provisions and depreciation, increased to 56% for Q2 fiscal 2021, compared to 54% for the prior year.

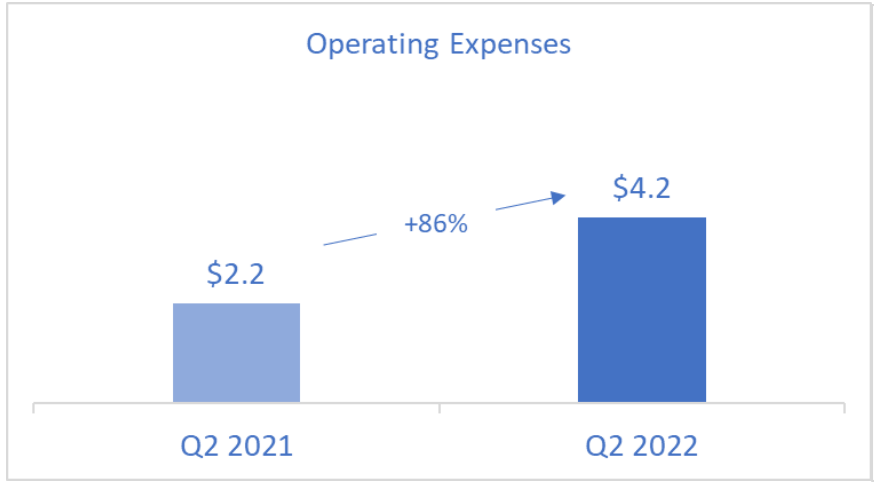


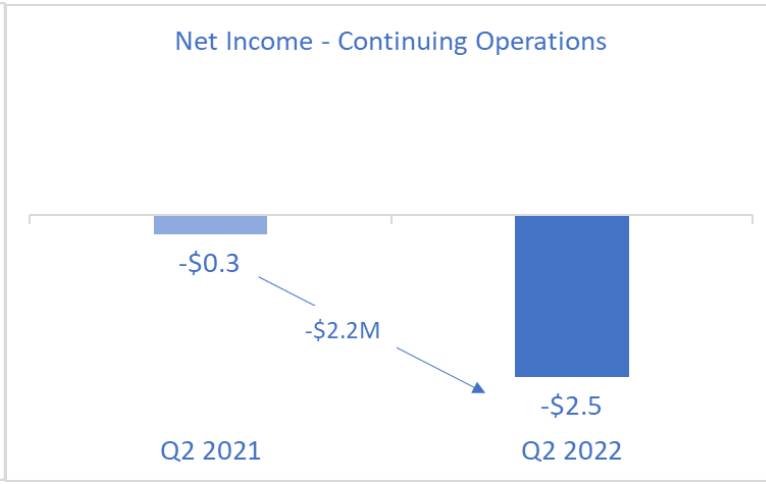


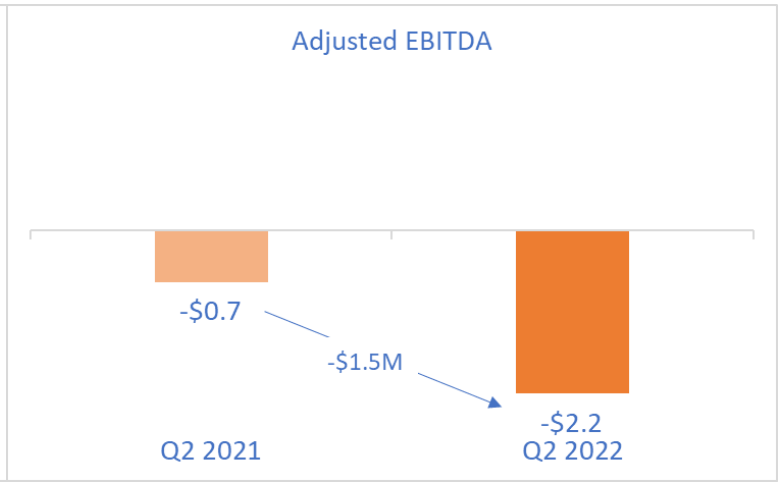
(1) See "Non-IFRS Measures" in the MD&A, including for a reconciliation of the non-IFRS measures used in this presentation to the most comparable IFRS measures

Q2 2022 Operating Expenses and Net Income

- Operational expenses from continuing operations increased 86% to $4.2 million compared to $2.2 million for the prior year.
- Excluding government subsidies ($0.2 million) and non-recurring recruiting fees ($0.6 million), operating expenses increased approximately 50% or $1.1 million.
- Approximately $0.8 million relates to sales, marketing, operations and administrative staff previously dedicated to the discontinued AquaGuard business that were re-deployed to continuing operations.
- The Company recorded $0.2 million of government subsidies netted out against the related expenses in the prior period.
- Net loss from continuing operations was $2.5 million and Adjusted EBITDA loss was $2.2 million.







Growth Drivers

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The world's **only** dual-antimicrobial surgical site dressing

SurgiClear®

Solutions Designed for Patients and Made for Healthcare Providers

covalon TECHNOLOGIES LTD.

The world's **only** dual-antimicrobial silicone IV dressing

IV Clear®

The world's **only** vascular access line-to-line connection barrier

VALGuard™
Vascular Access Line Guard

The world's **only** collagen wound filler with antimicrobial silver

ColActive® PLUS POWDER Ag

Covalon Growth Drivers in 2022 and Beyond

vascular access technologies	• Expand growth team with focus on IV Clear and VALGuard cross selling opportunities through existing US customer base • Additional International contracts secured for 2022-2023 • Grow share of 350M+ I.V. dressings used each year in the US • Vascular access and perioperative care TAM = $2.3B TAM	**Clear Path to Substantial Revenue Growth Over the Medium- to Long-Term**
advanced wound care	• Continued growth and demand for collagen products in US and International • Add new distributor partners to increase access and availability of our products • Launched Collagen Powder in 2021 – anticipating contribution to revenue in 2022 • Patented collagen platform allows accelerated growth in new product development • TAM = $4.8B	
perioperative care	• Launch SurgiClear in 2022 to US hospitals based on strong clinical evidence and key reference accounts • Commercial focus: preferred product in top Children's Hospitals in US • Cross selling opportunities with vascular access portfolio and expansion throughout hospital facility • Vascular access and perioperative care TAM = $2.3B TAM	
medical device coatings	• Access new and expand existing partnerships with large medical device companies for customized OEM anti-microbial and therapeutic medical device coatings • Large Medical Coating license agreement announced in 2018 approximate 24 months from beginning of royalties • TAM = $1.6B	

Poised for Continued Growth

Well-funded and debt free	Investing in commercialization to accelerate and support long-term growth in an $8.7B market
Significant need for cost-effective solutions for infection prevention	Innovative IP protected solutions that address large market issues
Demand for cost-effective rapid wound closure solutions	Patented collagen is a proven wound closure solution, able to close the most troublesome wounds
Post COVID patients and clinicians demand better, safer products	Patented antimicrobial + patented silicone + wound biologics = better outcomes
Solutions designed for the most vulnerable patients	Our KOLs are in leading teaching facilities and influence market adoption and drive clinical data

We Care. We Listen. We Deliver.

covalon TECHNOLOGIES LTD.

Questions about Covalon?

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